

North America IT & Technology Sectors

A Company and Industry Analysis

November 2009

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Current Environment — Key Points

- The PC market showed signs of gradual recovery in the middle of the year, with the fall in PC shipments slowing thanks to continued interest in and the growing popularity of netbooks and ultra slim laptops with competitive price tags.
- With the NASDAQ rising, and a return of confidence among investors, all leading US IT companies saw double-digit percentage increases in their stock prices over the six months.
- The weak economy, which stretched most companies' reserve funds and cash flows, led to a significant drop in US and global M&A activity last year. However, over the past six months, with the gradual recovery of major US stocks, there were several key mergers.
- Despite a drop in GDP in Canada, Canadian IT companies enjoyed positive overall financial performances. Eight of the top ten IT companies analyzed by Mergent also saw rises in their stock prices.

Industry Profile — Key Points

- The sales of semiconductors worldwide rose 17% on a quarterly basis to US\$51.7 billion in the second quarter of 2009, but this was still 20% lower than the US\$64.7 billion in the same period of 2008, according to the Semiconductor Industry Association (SIA).
- IT investment continued to be slow in the second quarter of 2009, with the number of deals above that in the first three months of the year, up from US\$2.3 billion to US\$2.48 billion. Overall IT investment rose by 8.5% quarter-to-quarter, but was still 41% lower than in the same period of 2008.
- The Canadian mobile phone market shrunk by approximately 1% in the second quarter of 2009, with shipments totaling 2.36 million units, just 40,000 units short of the 2.4 million units sold to wireless service providers and other channel partners in the same quarter last year.
- The association of IT professionals in July proposed an ICT strategy to the Canadian Government that would see technology professionals receive personal income tax concession and eliminate sales taxes on technology products.

Market Trends and Outlook — Key Points

- The sales of smartphones and multi-function handsets, particularly with added functionality such as internet access, email and applications, are growing rapidly.
- Energy efficiency is becoming a more important purchasing criterion for consumers when shopping for computers, monitors, printers or other high-tech products.
- Technology is at the core of the next generation of smart grids, with big corporations like IBM, Cisco, Oracle making significant investments in research, skills development and partnerships to make smart grids a reality.
- The poor financial results in the first half of 2009 means the ICT market may bottom out sooner, with a higher chance of positive year-over-year growth in the final quarter of 2009 and into 2010.
- Both the Canadian Government and the private sector are putting in additional efforts into developing electronic health information systems.
- Cloud computing is being gradually introduced into the ICT industry to enhance computer efficiency, make-easy maintenance, and increase accessibility of data and applications from anywhere.



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Current Environment

United States



Sector Overview

The IT industry, especially the PC segment, suffered a significant slump in sales and revenues throughout 2008 as the global recession took its toll on the economy. However, over the past six months, the PC market showed signs of gradual recovery, with the fall of US PC shipments slowing down thanks to continued interest in and the growing popularity of netbooks and ultra slim laptops with very competitive price tags. Consumers responded well to the falling prices of PCs, especially the new netbooks that triggered new lows in laptop prices. Netbooks' current sub-US\$300 selling prices even affected the mainstream laptop markets, forcing resellers to push conventional laptop prices into the US\$500 range. However, newer versions of netbooks with better processors, wider screens and larger keyboards are blurring the line between netbooks, ultra slim and conventional laptops.

Along with signs of recovery in the IT industry in 2009, there was a shift in the types of PCs being bought. A Gartner report published in July 2009 found that US PC shipments totaled 65.5 million units last year, with portable PC shipments outperforming those of desktops by 34.1 million to 31.4 million. It is likely that in 2009, the shift towards greater portable PC sales will become more obvious, with an estimated 39.5 million portable PCs shipped compared with just 26.6 million desktops. US PC shipments are also likely to see growth by the end of 2009,

with rises in portable PC sales covering lost ground in the desktop PC segment.

In the first three months of 2009, Hewlett-Packard Co's (NYSE: HPQ) (HP) US PC shipments were up 11.1%, while Dell's (NASDAQ: DELL) and Apple's (NASDAQ: AAPL) were down 16.3% and 1.1%, respectively, according to US Information Technology Industry Statistics (ITIC). Among the reasons for the decline in Dell's shipment and market share was Acer's intervention. Acer's sales in the US were boosted by its low-cost PCs, with shipments growing 49.4% year-over-year in the first quarter of 2009 to 2.08 million, and it had a 13.6% market share, compared with just 9.1% in the same quarter the year earlier. Apple's relatively higher average selling price created challenges in the tough economy, but the company's inventory control management prevented over-production, thus minimizing shipment and sales declines. In addition, the launching of its new tech gadget, the iPhone 3G, helped diversify the product range, and substantially boosted its revenues for the quarter, as well as in the longer term.

Sector Performance

The downturn in the US and global equity markets in the second half of 2008 and early 2009 had major negative effects on IT company share prices, with those of some

Table 1: US PC Shipment and Growth (shipment in millions)

Types of PC	2008	2009 (estimated)	Growth
Desktop PC	31.4	26.6	-15.29%
Portable PC	34.1	39.5	15.84%
Total	65.5	66.1	0.92%

Source: Gartner

Table 2: US PC Shipments for the First Quarter of 2009 and 2008 (in thousands of units)

Company	1Q 2009 Shipments	1Q 2009 Market Share	1Q 2008 Shipments	1Q 2008 Market Share	Growth
HP	4,228	27.7%	3,804	24.8%	11.1%
Dell	3,996	26.2%	4,775	31.2%	-16.3%
Apple	1,135	7.4%	1,148	7.5%	-1.1%
Total	9,359	61.3%	9,727	63.5%	-3.78%

Source: US Information Technology Industry Statistics

Current Environment - United States

Table 3: Six-Month Stock Price Performances of Major US IT Companies

Company	Closing Share Price as of		Total Rise/ Fall	Market Cap
	March 2, 2009	August 31, 2009		
Hewlett-Packard Co	US\$28.07	US\$44.89	59.71%	US\$111.46 billion
International Business Machines (NYSE: IBM)	US\$89.05	US\$118.054	32.57%	US\$159.42 billion
Dell Inc	US\$8.43	US\$15.83	87.78%	US\$30.79 billion
Microsoft Corp (NASDAQ: MSFT)	US\$15.79	US\$24.65	56.11%	US\$229.63 billion
Intel Corp (NASDAQ: INTC)	US\$12.31	US\$20.32	65.07%	US\$109.33 billion
Ingram Micro Inc (NYSE: IM)	US\$10.62	US\$16.76	57.81%	US\$2.81 billion
Cisco Systems Inc (NASDAQ: CSCO)	US\$14.32	US\$21.60	50.84%	US\$135.53 billion
Apple Inc	US\$87.94	US\$168.21	91.28%	US\$165.26 billion
Tech Data Corp	US\$16.26	US\$38.10	134.32%	US\$2.15 billion
Total Market Capitalization				US\$946.38 billion

Source: NYSE and NASDAQ

leading tech companies hitting rock bottom, falling more than 50%. However, major stock markets showed signs of recovery as the rate of price falls gradually slowed. For the six months from March 2 to August 31, 2009, the NASDAQ composite index rose 51.87%, from 1322.85 to 2009.06. With the NASDAQ rise, and returning confidence among investors, all leading US IT companies saw double-digit percentage increases in their stock prices over the six months. Tech Data Corp (NASDAQ: TECD), Apple and Dell were the top three gainers, enjoying 134.32%, 91.28% and 87.78% increases, respectively. The gradual recovery of the US economy was also reflected in the total market capitalization of the IT companies analyzed by Mergent, increasing by 63.67% to US\$946.38 billion as of August 31, 2009 — very different from the US\$578.21 billion recorded in February 28, 2009.

Leading Companies

Hewlett-Packard Co

HP announced net revenue of US\$27.5 billion in the third quarter ended July 31, 2009, a drop of 2% from the same quarter the year earlier. Its operating profit was down 14% to US\$2.2 billion, with net profit of US\$1.6 billion, a 19% drop compared with the same quarter in 2008. HP's revenue in the US grew by 8% to US\$12.6 billion in the

third quarter of 2009, accounting for approximately 38% of its global revenue. HP's revenue in Europe, the Middle East and Africa declined by 12% to US\$9.9 billion, while its Asia-Pacific revenue dropped by 4% from the same quarter the year earlier to US\$5 billion. HP's worldwide PC shipments grew by 2.8% in the first six months of 2009 to 26.68 million, giving it the highest market share of all leading PC manufacturers at 18.1%.

IBM

In the second quarter of 2009, IBM announced revenues of US\$23.3 billion, a 13% drop compared with the same quarter of 2008. Despite the difficult economic environment, IBM made a net profit of US\$3.1 billion for the second quarter, a 12% increase from US\$2.8 billion in the same quarter of 2008. This was the result of IBM's strategic business model transformation that resulted in superior earnings, cash and client value. Its continued strategic investments in its Smarter Planet solutions, business analytics and next generation data centers enables IBM to make the most of both current growth opportunities and those that emerge as the global economy shows signs of recovery.

IBM's total expenses fell by 19% to US\$6.3 billion compared with the prior-year period, with SG&A (selling, general and administrative) expenses down 19% to US\$5.1

Current Environment - United States

billion and RD&E (research, development and engineering) expenses down 14% to US\$1.4 billion. Intellectual property and custom development income was up US\$302 million, from US\$285 million the year earlier. IBM ended the second quarter of 2009 with US\$12.5 billion cash on hand, and generated free cash flow, excluding global financing receivables, of US\$3.4 billion. The company returned US\$2.4 billion to shareholders through US\$732 million in dividends and US\$1.7 billion of share repurchases.

Dell Inc

Dell announced net revenue of US\$12.76 billion in the second quarter (ended July 31, 2009) of its 2010 fiscal year, down 22% from the same quarter the year earlier. Net income for the period declined 63%, from US\$616 million to US\$472 million. Dell announced that, as global demand for IT products becomes more stable, it expects a sequential revenue rise from sales in the second half of fiscal 2010. The company plans to reduce its annual costs by more than US\$4 billion by the end of fiscal 2011 by focusing on optimizing liquidity, profitability and growth in the midst of this still-challenging operating environment. Reductions will come from a combination of greater efficiencies in design and procurement, optimization of manufacturing and supply chain logistics, and ongoing reductions in operating expenses.

Microsoft Corp

Microsoft announced revenue of US\$13.10 billion for the fourth quarter ended June 30, 2009, a 17% decline from the same period the year earlier. Its operating income was US\$3.99 billion, net income US\$3.05 billion, and diluted earnings per share of US\$0.34, declines of 30%, 29% and 26%, respectively, from the prior year period. For the fiscal year ended June 30, 2009, Microsoft reported revenue of US\$58.44 billion, a 3% decline from the previous year. Its operating income, net income and diluted earnings per share for the year were US\$20.36 billion, US\$14.57 billion and US\$1.62, declines of 9%, 18% and 13% respectively.

Due to the weak global PC market and the unfavorable economic environment, revenue declined across most segments. The decline in the quarter was most obvious, as it included the deferral of US\$276 million of revenue related to the Windows 7 Upgrade Option program that it announced on June 25, 2009. This revenue deferral reduced earnings per share by US\$0.02. The Q4 financial results also included US\$193 million in legal charges, US\$108 million of impairments to investments and US\$40

million in additional severance charges related to the previously announced plan. Foreign currency exchange rates accounted for a US\$486 million, or 1%, increase in revenue due to the US dollar strengthening against other major currencies.

Intel Corp

Intel announced second quarter 2009 revenue of US\$8.0 billion, an operating loss of US\$12 million, a net loss of US\$398 million and a loss per share of US\$0.07. Despite the figures being in the red, Intel reduced the net loss from US\$2 billion in the second quarter of 2008 to US\$398 million. Despite the weak economy, Intel's strategy of investing in new technologies and innovative products, combined with ongoing focus on operating efficiencies, proved to be the correct one to counter the effects of the bad economy, yielding benefits that minimize losses and strengthen Intel's financial performance.

Mergers, Acquisitions and Alliances

The weak economy, which stretched most companies' reserve funds and cash flows, led to a significant drop in US and global M&A activity last year. However, over the past six months, with the gradual recovery of major US stocks, there were several key mergers. One example was Oracle Corporation (NASDAQ: ORCL) and Sun Microsystems (NASDAQ: JAVA) announcing on April 20, 2009, that they had agreed to Oracle acquiring Sun's common stock for US\$9.50 per share in cash. The transaction is worth US\$7.4 billion, or US\$5.6 billion net of Sun's cash and debt.

The acquisition of Sun transforms the IT industry, as it involves combining best-in-class enterprise software and mission-critical computing systems. It makes Oracle the only company that can engineer an integrated system from applications to disk, enabling all the pieces to fit and work together so that customers do not have to do it themselves. This allows the customers to benefit as their systems integration costs go down with the all-in-one service, while system performance, reliability and security are maintained if not increased.

However, despite the US Department of Justice giving the all-clear to the merger, as of September 2009, the European Commission (EC) was holding back on approving the merger, and plans to further investigate antitrust issues behind the deal. If the EC decides to launch a full review, it could take up to four months, at a time when Sun's

Current Environment - United States

worldwide server sales have been affected by IBM and HP offering discounts to lure Sun customers. This resulted in a drop of more than 37% in worldwide server sales to US\$981 million in the second quarter of 2009 from the same 2008 quarter.

Meanwhile, Energy Conversion Devices (NASDAQ: ENER) (ECD) completed its takeover of Solar Integrated Technologies (LSE: SIT) in a US\$16 million-plus all-cash transaction. Solar Integrated Technologies, a building-integrated photovoltaic roofing systems company, also a former customer of ECD's Uni-Solar photovoltaic (PV) laminates, with its own manufacturing facility in Los Angeles, became a wholly owned subsidiary of ECD on August 19, 2009. The deal will strengthen and diversify ECD's business, allowing it to offer complete solar solutions and services to clients, in addition to its core businesses in manufacturing PV products for the alternative energy generation (primarily solar energy), energy storage and information technology markets.

Current Environment

Canada



Sector Overview

Canada's economy contracted at a 3.4% annualized rate in the second quarter of 2009. Despite this being another sizeable drop in GDP, the figure reflected a slowing down of Canada's economic slide from the 6.1% GDP drop in the first quarter and the 3.7% dip in the final quarter of 2008. The decline was slightly more than the expected 3%, but still in line with the 3.5% dip projected by the Bank of Canada in its July Monetary Policy Report.

Canada's ICT sector's 0.8% drop in output in the first quarter of 2009 (reported by Industry Canada (IC) on June 20, 2009) marked the second consecutive quarterly decline for both the ICT sector and all Canadian industries, which recorded a decline of 1.7%. However, Canada's ICT sector output over the past five quarters showed that the ICT

industry was quite stable and less affected by the global economic crisis than other industry sectors. It declined only by a marginal 0.2%, while the Canadian economy generally dropped by 2.5%.

The second quarter was a disappointing one for Canadian PC shipments but, according to IDC Canada, there were some reasons for optimism as the IT industry approached the end of 2009. IDC Canada estimates that the overall Canadian PC market saw a drop of 14.6% in second quarter 2009, compared with the same quarter the year earlier, and a decline of 12% from the previous quarter. A positive factor was that shipments of portable PCs were up 9.9% over the same quarter of 2008 to 728,658 units. Contributing to the poor overall PC shipment performance was the downward

Table 4: Six-Month Stock Price Performances of Major Canadian IT Companies

Company	Closing Share Price as of		Total Rise/ Fall	Market Cap
	March 2, 2009	August 31, 2009		
Celestica Inc (TSX: CLS)	US\$4.05	US\$9.31	129.88%	US\$2.26 billion
Research in Motion Ltd (TSX: RIM)	US\$47.90	US\$80.35	67.75%	US\$52.37 billion
CGI Group Inc (TSX: GIB.A)	US\$9.35	US\$11.32	21.08%	US\$4.00 billion
MacDonald Dettwiler & Associates Ltd (TSX: MDA)	US\$20.40	US\$30.50	49.51%	US\$1.27 billion
Softchoice Corp (TSX: SO)	US\$1.57	US\$6.67	324.84%	US\$143.12 million
Open Text Corp (TSX: OTC)	US\$39.86	US\$38.56	3.26%	US\$2.24 billion
GSI Group Inc (NASDAQ: GSIG)	US\$0.81	US\$0.66	-18.52%	US\$33.77 million
SMTC Corp (TSX: SMX)	US\$0.58	US\$0.65	12.07%	US\$9.04 million
Corel Corp (TSX: CRE)	US\$3.80	US\$2.84	-25.26%	US\$173.23 million
Constellation Software Inc (TSX: CSU)	US\$24.25	US\$35.00	44.33%	US\$779.21 million
Market Capitalization				US\$63.28 billion

Source: Toronto Stock Exchange

Current Environment - Canada

spiraling of desktop PC shipments, which slumped by 36.8% from the year earlier quarter.

Sector Performance

In the six months from March 2 to August 31, 2009, Canadian IT companies enjoyed positive overall performances, with eight of the top ten IT companies analyzed by Mergent seeing increases in their share prices. Softchoice (TSX: SO), Celestica (TSX: CLS) and Research in Motion (TSX: RIM) were the top performers, gaining 324.84%, 129.88% and 67.75%, respectively. Only GSI Group (NASDAQ: GSIG) and Corel Corp (TSX: CRE) recorded declines, of 18.52% and 25.26%, respectively. The gradual recovery of confidence in the Canadian economy among investors and consumers, following positive signs from the US stock market indicating that the worst of the economic crisis had passed, helped boost the Canadian share market, resulting in a more positive response from top Canadian IT companies over the six months. The market capitalization of these ten companies totaled US\$63.28 billion, a 79.52% increase from US\$35.25 billion on February 2, 2009.

Leading Companies

Celestica Inc

For the second quarter ended June 30, 2009, global provider of electronics manufacturing services (EMS) Celestica announced revenue of US\$1.402 billion, a decline of US\$474 million compared to US\$1.876 billion achieved in the same quarter of 2008. Adjusted net earnings for the quarter were US\$25 million, or US\$0.11 per share, compared with US\$38.9 million, or US\$0.17 per share, for the same period the year earlier. Its first half revenue was US\$2.872 billion, compared with US\$3.712 billion for the same period the previous year, with adjusted net earnings totaling US\$54.3 million, or US\$0.24 per share, compared with US\$74.3 million, or US\$0.32 per share.

The drop in Celestica's revenue and profit clearly reflected weaker end-market demand in 2009. Higher restructuring costs associated with the company's restructuring program announced at the beginning of 2008 contributed to the company earning less income in the first half of 2009. However, Celestica argued that the slide in performance was well within the company's guidance published on April 23, 2009, and was expected, due to the extra costs incurred by the restructuring program.

Research in Motion Ltd

Research in Motion Ltd (RIM), a world leader in the mobile communications market and maker of the BlackBerry personal digital assistant, announced second quarter (ended August 29, 2009) revenue of US\$3.53 billion, up 3% from US\$3.42 billion in the previous quarter, and up 37% from US\$2.58 billion in the same quarter of the previous year. Net income for the quarter totaled US\$475.6 million, compared with US\$495.5 million in the same quarter the previous year.

During the quarter, the company shipped 8.3 million devices and added 3.8 million new BlackBerry subscriber accounts, as higher retail sales of its BlackBerry smartphone helped drive subscriber growth. This was helped by interest from business executives worldwide in the BlackBerry Curve 8520 smartphone, a new addition to the BlackBerry Curve series of smartphones launched in the US in July 2009, which combines email, messaging, social networking, music and entertainment. At the end of the quarter, RIM's BlackBerry subscriber account totaled 32 million, and the figure is likely to grow further.

CGI Group Inc

CGI reported fiscal 2009 third quarter (ended June 30, 2009) revenue of C\$950.42 million (US\$925.07 million), and net earnings of C\$76.53 million. This represented a mere 0.0052%, or C\$49,000 (US\$47,693.17), year-on-year revenue decline, and 1.87%, or C\$1.46 million (US\$1.42 million) of net earnings decline, compared with the same quarter of 2008. However, the nine months ended June 30 showed a total revenue gain of C\$122.45 million (US\$119.18 million), from C\$2,776.67 million (US\$2,702.62 million) in the same period the previous year, to C\$2,899.11 million (US\$2,821.79 million), and a net earnings gain of C\$14.37 million (US\$13.99 million), from C\$219.55 million (US\$213.69 million) to C\$233.92 million (US\$227.68 million).

CGI generated C\$170.9 million (US\$166.34 million) in cash from its continuing operating activities, or 18% of its 2009 third quarter revenue. In the first nine months of fiscal 2009, CGI generated C\$437.8 million (US\$426.12 million) in cash from continuing operating activities, or 15.1% of revenue, an improvement of C\$165.1 million (US\$160.7 million) from the first nine months of fiscal 2008.

Current Environment - Canada

Along with sequential growth over the nine-month period, CGI signed C\$1.06 billion (US\$1.03 billion) worth of new contracts during the third quarter, with two major contracts coming from the government and healthcare sectors worth approximately US\$310 million over five years. In September 2009, the IT firm secured another five-year mega deal to work on ICICI Bank Canada's high interest investment savings account database platform. The value of the deal was not disclosed. ICICI Bank Canada is a wholly owned subsidiary of ICICI Bank Ltd (NYSE: IBN).

MacDonald Dettwiler & Associates Ltd

MacDonald, Dettwiler and Associates (MDA), a provider of essential information solutions, reported consolidated revenues for the second quarter and first half of 2009 ended June 30 of C\$245.79 million (US\$239.23 million) and C\$517.76 million (US\$503.95 million), respectively, down from C\$321.45 million (US\$312.88 million) and C\$611.88 million (US\$595.56 million) for the same period of 2008. However, net earnings for both periods were up by 88.53% and 25.85%, from C\$13.41 million (US\$13.05 million) and C\$39.50 million (US\$38.45 million).

MDA earned less revenue in the second quarter primarily because of reduced sales of information products, but net earnings returned to positive due to the recovery of its stock price to net earnings of C\$0.63 (US\$0.61) per share, compared with just C\$0.33 (US\$0.32) per share in the same quarter of 2008. The amount of money lost on equity forward contracts also fell heavily, to just C\$697,000 (US\$678,411) in the second quarter of 2009, compared with C\$15.99 million (US\$15.56 million) the year earlier.

Softchoice Corp

Softchoice, a leading North American provider of technology solutions and services, saw second quarter (ended June 30, 2009) revenue drop by 17% to US\$279.3 million, compared with the same period of 2008. However, net earnings for the quarter increased by 71% to US\$12.6 million, or US\$0.72 per share, compared with the same period in 2008.

A large foreign exchange gain boosted net earnings in the quarter, as the Canadian dollar appreciated by 8% compared with the first quarter of 2009. Softchoice also completed the operational integration of the three businesses that it acquired in late 2007 and early 2008, achieving cost

efficiencies that contributed to a 28% decline in operating expenses from the year earlier.

Mergers, Acquisitions and Alliances

The credit crunch that began in 2008 had a more negative impact on ICT companies' merger and acquisition (M&A) activity in Canada than in the US. Six months into 2009, although there were visible signs of a recovery in the economy, M&A activity in Canada remained slow, mainly due to market confidence remaining low, with investors having second thoughts about market conditions, leading to them putting takeover plans on hold as they adopted a wait-and-see strategy.

One of the bigger IT players acquiring new assets early in 2009, despite economic conditions, was RIM, which completed its acquisition of Certicom Corp (TSE: CIC) at a cash price of C\$3 (US\$2.92) per outstanding Certicom common share on March 24, 2009. The total payout was US\$106.5 million, more than double the amount RIM offered in December 2008. RIM also made a C\$4 million (US\$3.89 million) payment to VeriSign as the termination fee for the VeriSign-Certicom deal agreed prior to the hostile takeover.

RIM's acquisition of Certicom gives it technology and expertise that will complement RIM's business and its industry leading BlackBerry platform. It will enable RIM to focus on delivering more robust solutions for security-conscious businesses and government organizations around the world. Certicom will also gain more opportunities to build on its strong foundation of delivering better security solutions across all its market verticals.

On a smaller scale, Itergy, an international enterprise offering strategic consulting and managed services of Microsoft technologies to medium to large enterprises, announced on May 1, 2009, it had completed the acquisition of DSF Concept, a Microsoft partner involved in IT services for the small to medium business market in Quebec City. This will expand Itergy's ability to service small and medium businesses across the province of Quebec, in addition to meeting the needs of larger scale customers.

Industry Profile

United States



Semiconductor Segment

Sales of semiconductors worldwide rose 17% on a quarterly basis to US\$51.7 billion in the second quarter of 2009, but this was still 20% lower than the US\$64.7 billion in the same period of 2008, according to the Semiconductor Industry Association (SIA). Worldwide semiconductor sales for the first half of 2009 totaled US\$95.9 billion, down 25% from US\$127.5 billion in the corresponding period the year earlier.

North America was behind Japan on IC (integrated circuit) sales growth in June 2009, as Japan enjoyed a monthly rise of 8.2% and North America 4.8%. The rise of semiconductor sales in the US played a part in moderating the impact of the global economic slowdown, and carefully managed inventory volume and supply distribution minimized overproduction, while making sure there is sufficient stock for a gradual increase in demand when the market picks up. In addition, the Chinese Government's economic stimulus package and incentives for consumer products and investment in 3G/TDSCDMA communications infrastructure this year helped boost semiconductor sales on the mainland, with the biggest gainers from this being US semiconductor giants, which have substantial market share in China.

Worldwide semiconductor manufacturing equipment billings totaled US\$2.69 billion in the second quarter of 2009, 13% lower than in the first quarter of 2009, and 66% less than in the same quarter the year earlier. The Semiconductor Equipment Industry (SEMI), a global industry association serving the manufacturing supply chains for the microelectronic, display and photovoltaic industries, also reported in September 2009 that worldwide semiconductor equipment bookings totaled US\$2.95 billion in the second quarter of 2009 — 58% less than in the same quarter the year earlier and 83% greater than in the first quarter of 2009. Despite being very different from the figures in 2008, the back-to-back positive quarterly performances showed that the global semiconductor equipment market was slowing emerging from the slump that began toward the end of 2008.

North American manufacturers of semiconductor equipment had US\$599 million in orders in August 2009, a book-to-bill ratio of 1.03, and an increase of 109.73% in

order volume compared with January 2009's figure of just US\$285.6 million, according to the August 2009 Book-to-Bill Report published by SEMI. The book-to-bill ratio of 1.03 means that companies received an average of US\$103 worth of orders for every US\$100 worth of products billed for the month. Equipment bookings had increased gradually for five months in a row as market conditions recovered from the very low levels reported earlier in 2009. With semiconductor device sales and fabrication (fab) capacity utilization improving over recent months, semiconductor equipment spending was expected to follow a similar gradual comeback trend in the second half of 2009 and into the New Year.

Sector Investment

US IT investment continued to be slow in the second quarter of 2009, with the number of deals slightly above that in the first three months of the year, rising from US\$2.3 billion to US\$2.48 billion. Overall IT investment rose by 8.5% quarter-to-quarter, but was still 41% lower than in the same period of 2008. Investors put less into software deals in the second quarter than they did in the first — US\$696 million versus US\$715 million. Despite some sign of recovery, the still shaky economy remained investors' primary concern, and they were wary of making new commitments, postponing investment plans at least until 2010.

Intel, in line with its objective to boost mobile wireless broadband technology around the globe, invested US\$43 million in Japanese WiMAX provider UQ Communications in June 2009. Intel has already invested close to US\$2 billion in WiMAX over the past four years, and this latest investment reflected its confidence in the potential of WiMAX, which, it believes, will outshine current 3G wireless broadband technology. Intel's favors WiMAX because it is wireless technology that mobile phone carriers do not control, and is independent of handset makers who are not using Intel chips. As the world goes mobile, Intel intends to have its chips inside the devices people are carrying, rather than the ARM-based chips currently favored by handset makers. UQ Communications, being a provider of mobile WiMAX in Japan, will be a perfect launch pad for Intel to push WiMAX as an open system

Industry Profile - United States

and to secure Japanese wireless broadband market share when UQ Communications expands its services throughout the country.

Japan is not the only recipient of Intel's investment in its strategy to have WiMAX replace current 3G network technology. Over the past four years, Intel has invested US\$1.725 billion in Clearwire Corp (NASDAQ: CLWR) to create a WiMAX network in the US, as well as investing in operators in Egypt, the Netherlands, the UK, Malaysia, Taiwan and Australia. It has also purchased spectrum in Sweden to further its WiMAX ambitions, has funded startups pushing WiMAX technology, such as WiMAX equipment vendor Navini Networks, and has provided capital for cell phone messaging service Aicent to ensure that its service works with WiMAX.

The latest US IT investment also involves Intel, as its global investment organization Intel Capital agreed, in September 2009, to acquire a US\$20 million stake in Telligent Systems, makers of social computing solutions and business intelligence tools. Telligent's flagship product, Community Server, is an enterprise social computing platform with more than 3,000 customers, and was among the first to offer a suite-based social collaboration solution. Community Server includes blogging, web discussions, videos, really simple syndication (RSS), wiki and rich user profiles. Intel's investment in Telligent gives it the latest networking tools, which Intel believes are vital for its further expansion, as the way people work and communicate has changed, with everything happening in real-time and much faster. With the funds from Intel, Telligent can expand its sales teams, reach out to international markets and increase its marketing and advertising initiatives to secure more market share.

On September 24, 2009, Microsoft announced it would invest about US\$19 million to develop South Korea's online games industry. At least 25 South Korean games developers will receive funding from the US firm over the next four years, with Microsoft providing technological and marketing support, training of developers, and helping to set up new business entities. Microsoft's South Korean subsidiary said that the move is part of a US\$60 million investment plan, announced in November 2008, to support the South Korean software industry. Microsoft is investing in South Korea's gaming industry because it is one of the largest in the world. It does not limit itself to console games, but organizes online gaming with huge competitions, and has a very profitable segment in animations and comics.

This makes South Korea a very marketable country in which Microsoft can launch new products in the near future, thus increasing its market share.

Research and Development

Despite feeling the impact of the economic slowdown, especially in the forth quarter of 2008 and into the first few months of 2009, US IT players such as Intel, Microsoft and HP still have sizeable cash flow and market share to enable them to go ahead with their R&D plans. However, R&D strategy announcements over the past six months were few, with only the major players revealing R&D plans locally and abroad. Most IT companies either cancelled or put on hold their R&D plans to cut costs, or diverted funds into boosting operating efficiencies and sales while minimizing redundancies.

July 16, 2009, saw the formation of an upstate New York R&D partnership, with US\$92.5 million in capital from the 2009 state budget, and a combined capital investment of US\$133.5 million from IBM, Sematech, and Intel, which should create 475 new jobs in the area. The project is a high-tech venture between the SUNY (State University of New York) Institute of Technology at Utica/Rome (SUNY IT) and the University at Albany's CNSE (College of Nanoscale Science and Engineering) center, and establishes the Computer Chip Hybrid Integration Partnership (CHIP).

The partnership aims to support the attraction and retention of small and medium nanotechnology companies in the Utica-Rome, New York area, to provide the necessary infrastructure to allow innovation, education, and commercialization of the growing chip industry in upstate New York. The venture also establishes the Computer Chip R&D Integration Center (CCIC) at the University at Albany, which will collaborate with leading chip companies, including IBM and Sematech, on R&D of unspecified system on chips (SOCs), creating more than 200 new high-tech R&D positions at the university. The partnership will also create a joint educational and training curriculum between the SUNY IT School of Information Systems and Engineering Technology and CNSE.

General Electric (NYSE: GE) and Intel are forming a healthcare alliance and investing US\$250 million to develop and market new telehealth technologies that will help patients with chronic diseases. It will help their doctors manage their conditions while the patents remain

Industry Profile - United States

at home, and will help seniors retain their independence. The two companies estimate the market for such products will grow from the current US\$3 billion a year to US\$7.7 billion by 2021.

By bringing together General Electric and Intel's complementary skills, the alliance will focus on R&D of next generation home health technologies with higher efficiency and robustness. It will also aim to expand home health and independent living technologies into new areas by preventing falls, helping people stick to their medication schedules, treating cardiovascular diseases, diabetes, sleep apnea, and monitoring personal health.

The companies believe that the alliance has the potential to lower national healthcare costs by keeping millions of Americans out of hospital while still giving doctors the information they need to monitor health and deliver care. The investment in developing telehealth technology is in line with President Obama's recently proposed healthcare reform plan to provide better healthcare and insurance coverage to all Americans, especially those 65 or older. The plan, if implemented, would affect 72 million people, or 20% of the US population by 2030.

Meanwhile, Intel and Huawei Technologies, the largest networking and telecommunications equipment supplier in China, are jointly creating a R&D center for the development of WiMAX wireless networks in Saudi Arabia. King Abdulaziz City for Science and Technology (KACST) and Intel have selected Huawei to provide systems for the wireless R&D center, including WiMAX base stations, access network gateways and authentication servers. The center will display WiMAX technology, test interoperability and optimize network performance to guarantee the effective operation of various client end-user devices on operators' WiMAX networks. The amount of R&D investment was not disclosed.

More and more companies are investing in China, with its costs and skills remaining highly attractive. Cisco is making a US\$16 billion multi-year investment in China to boost local innovation and create more market opportunities for itself and its partners through a series of investments in capital, technology, process expertise, incubation resources and leadership. In April, Cisco Systems and Tsinghua University of China jointly launched a green technology R&D program to be operated by the Department of Electronic Engineering of Tsinghua University and the Cisco China Green Research and Development (R&D)

Center. It will focus on intelligent urbanization to support China's long-term energy-efficient and green GDP growth strategy through developing network-based technologies and solutions. Cisco also established a supply chain institute with Shanghai-based Fudan University, to design world-class educational programs and to train senior staff of Chinese enterprises in supply chain management.

Policy and Regulatory Environment

The Obama Administration and the US Office of Science and Technology Policy are currently working on a technology and innovation plan that will connect Americans to a modern broadband communications infrastructure. It will also aim to upgrade the education network through implementation of new technologies to make teaching more efficient, and aims to lower healthcare costs through better use of an improved IT network. By expanding the use of advanced health IT such as electronic medical records, mobile health applications and sensors for monitoring chronic diseases, medical errors can be prevented, healthcare quality improved and the American healthcare system modernized to reduce costs.

To this end, President Obama proposed the Recovery Act, which will provide more than US\$19 billion in investments to modernize health IT, including a US\$10 billion expansion of cancer research projects and clinical trials of medicines that could help stop the HIV/AIDS pandemic. The aim is to link the entire country with broadband networks that reach into every neighborhood and household, every school and library, and every hospital and public safety office. It will do this through a combination of new investment, reform of the Universal Service Fund, better use of the nation's wireless spectrum, promotion of next-generation facilities, technologies and applications, and new tax and loan incentives.

Industry Profile

Canada



Industry Overview

Canada's GDP contracted by 4.9% from July 2008 to July 2009, but the country's ICT industry fared slightly better than the overall economy, shrinking by just 2.2% over the same period, according to Statistics Canada. When compared with other major industries that suffered double-digit GDP contractions, the economic recession had a lesser impact on Canada's ICT industry.

The Canadian mobile phone market shrunk by approximately 1% in the second quarter of 2009, with shipments totaling 2.36 million units, just 40,000 units short of the 2.4 million units sold to wireless service providers and other channel partners in the same quarter last year, according to IDC Canada. The smartphone segment was more positive, growing 49% in the second quarter of 2009 compared to the same quarter last year. This improvement suggested the mobile phone industry was on the mend, at least in the smartphone segment.

The introduction of more powerful smartphones is changing the composition of the mobile handheld sector. Smartphones are generally replacing conventional mobile phones, as consumers opt for more advanced features, such as high-level operating systems like Android, BlackBerry, Linux, Mac OS X, Palm, Symbian, and Windows Mobile. These operating systems enable the devices to connect to the internet via broadband, as well as run third-party applications in addition to conventional voice telephony. The double-digit growth in the smartphone market is mainly attributed to the growing popularity of QWERTY keypad smartphones among consumers, especially those who are always on the go, need to send texts, and have constant wireless broadband connectivity.

Sector Investment

Getting over that last hurdle between product development and market launch can be a make-or-break journey for start-up high-tech companies. The Ontario Government in 2009 injected much needed capital into ten such companies under the province's Investment Accelerator Fund (IAF) to help them develop their technologies, gain entrepreneurial expertise and, most importantly, market their products or services locally and abroad. IAF, which has US\$46 million in funding, is a component of the

Ministry of Research and Innovation's Market Readiness Program.

The eight companies that received IAF funding in January 2009 were: C2C Link Corp, an optical chip maker; Echologics Engineering Inc, an acoustics signal processing firm; IPeak Networks, an IP network provider; Kneebone Inc, a maker of marketing performance-measurement software; Nulogy Inc, a supply chain management software developer; Regen Energy Inc, a developer of a wireless electrical energy demand controller; Skymeter Corp, a developer of a GPS-based vehicle monitor; and Sysomos Inc, a developer of software that can monitor online social media sites and advertising campaigns. The two most recent receivers of IAF funding were Atreo Medical Inc, the maker of the CPRGlove, which interactively guides users on how to most effectively perform life-saving cardio-pulmonary resuscitation (CPR); and Metabacus Inc, a software developer that created a tool allowing semiconductor designers to create new computer chips in half the time and at half the cost. All ten companies each received US\$500,000 in funding.

The Canadian and Quebec governments announced in September they were awarding approximately US\$178 million to Université de Sherbrooke to build a center of innovation for microelectronics in partnership with IBM Bromont and DALSA Semiconductors Inc, which would together contribute US\$40 million, for a total project investment of US\$218 million. DALSA Semiconductors Inc is one of two components of DALSA Corporation (TSX: DSA), an international leader in high-performance digital imaging and semiconductors.

The project's main objective is to create an international center of excellence for assembling electronic microchips and micro-electromechanical systems (MEMS). The center, to be based at Technoparc Bromont, will carry out R&D on packaging microsystems and electronic microchips. The project will bring together an estimated 250 industry and university researchers, and will create over 3,000 jobs in Quebec in the field of microelectronics. The project will also help create a true microelectronics cluster in Quebec, which will fit strategically into the northeastern North America microelectronics corridor, stretching from East

Industry Profile - Canada

Fishkill in New York State to Bromont and representing 35,000 jobs.

Research and Development

Canada's Minister of Industry announced in May a US\$3.1 million repayable R&D investment in TransCore Link Logistics Inc's satellite-based monitoring of the transport of goods. TransCore will develop new products and applications for its GlobalWave system, which tracks the movements of vehicles and their cargo. The technology involves small battery-powered terminals attached to transport vehicles that report location and other sensor-gathered information to the fleet owner via satellite and the internet on a prescheduled or event-driven basis.

With an R&D budget of US\$10.4 million, this project will enable TransCore to develop wireless sensors, improve the accuracy and battery life of its GPS technology, develop a new messaging product for faster data transfer, and expand the GlobalWave system for use on high-value containers transported by ship, rail and truck. These developments will help improve the safety, security and efficiency of commercial and military shipments, while also improving fleet management and performance.

This project also offers significant spillover benefits, typically creating safer and more secure supply chains that will help preserve resources that may otherwise be lost through accidents or theft. More efficient fleet management will result in fuel and insurance savings, and reduced energy consumption and pollutant emissions. The technology developed could also have broader applications, such as enhanced wireless technology or the miniaturization of wireless communications products.

The National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) on August 11, 2009 approved funding for TRIUM Environmental Solutions Inc, a consulting-industry innovator with expertise in environmental forensics, environmental toxicology, environmental risk assessment, analytical chemistry, data quality assurance, litigation support, hydro geological investigation and monitoring, environmental site assessment, environmental risk management, remediation engineering and project management.

The US\$150,000 funding will support TRIUM's innovative R&D project developing high-tech environmental consulting solutions for global markets, typically to

contribute in the R&D of enhancing the techniques to improve water quality by using the natural filtering power of bentonite to remove salt from groundwater. This showed the Canadian Government's commitment to building a competitive advantage for the Canadian private sector and its support of leading-edge technology solutions by investing in science and technology R&D, creating jobs, strengthening the economy, and improving quality of life.

NRC-IRAP will receive total funding of US\$200 million for the next two years from Budget 2009 - Canada's Economic Action Plan. With the funds, NRC-IRAP will be helping the Government to build a competitive advantage for Canada based on excellence in science and technology. The funding includes US\$170 million to double NRC-IRAP's contributions to firms and US\$30 million to help hire more than 1,000 new post-secondary graduates via its Youth Employment Program. The budget commitment reinforces NRC-IRAP's mandate to help SMEs take knowledge from the lab to the marketplace. The budget commitment also broadens NRC-IRAP's ability to provide S&T expertise to SMEs. NRC-IRAP estimates that this new money will allow it to support approximately 1,400 additional SMEs over the next two years.

Policy and Regulatory Environment

The association of IT professionals in July proposed an ICT strategy to the Canadian Government that would see technology professionals receive personal income tax concessions and eliminate sales taxes on technology products. This would go some way to relieve the economic pressure on the country's ICT workforce and generally lift the gloom from the ICT industry. According to the Canadian Information Processing Society (CIPS), should the tax exemption proposal be approved and enforced, it would help ensure the long-term viability of Canada's ICT industry, as it would encourage more students to enter the ICT field as well as to entice ICT professionals to return to Canada. The elimination of sales tax on technology-related products will give both manufacturers and retailers some breathing space in the prevailing uncertain economic climate.

Market Trends & Outlook

United States



Bright Future for Smartphones and Handheld Devices

The sales of smartphones and multi-function handsets, particularly with added functionality such as internet access, email and applications, are growing rapidly. Mobile phone sales were down in the second quarter of 2009, but surprisingly, smartphone sales went up, particularly for Apple's iPhone 3Gs. While worldwide sales of mobile phones declined 6% to 286 million units for the second quarter of 2009, 40 million smartphones were sold, up by 27% compared to the previous quarter.

This trend of rising smartphone sales reflects consumers' growing need for mobile phones loaded with features and functions. Greater functionality enables smartphone users to be productive despite not being in the office, and enjoying more entertainment options and 3G connectivity. While Apple did not break into the top five for manufacturers of mobile phones, the iPhone is seeing tremendous growth, with 5.21 million units sold in the third quarter of 2009 compared to just 717,000 units sold in the same quarter a year ago.

Google's newly launched Android and Apple's iPhone 3Gs have in fact ushered in a new dynamic in the mobile phone segment. Traditionally, wireless mobile phone carriers controlled the applications that were loaded onto mobile phones. Google and Apple have changed this business model. The Android and iPhone software are not controlled by wireless carriers, but controlled by their respective software vendors working directly with developers to ensure applications are customized for their respective platforms. Smartphone communication is no longer an option in today's competitive business world, but an essential business tool. Apart from the conventional voice telephony function, the software options available on these devices, as exemplified by the breadth of tools on Apple's iPhone, increase business productivity.

Large companies are investing in unified communication (UC) systems from software firms such as Microsoft and Cisco. These systems place the power of telephony onto the computer and include an integration of telephone, CRM, chat, address book, calendar and other useful tools. Many companies are also developing feature-rich and low-cost UC platforms specifically for small businesses.

These systems work in conjunction with voice over the internet solutions and allow one to use a telephone, PC or smartphone to access the UC features.

For example, if a customer calls the office, the person in charge should be able to see the caller's profile on the computer screen automatically. Being able to greet the customer in a more personalized manner and even knowing about the last interaction with the customer such as previous orders, returns, and complaints is important. Besides, the integration of different devices, like inter-connecting fax machines, desktops, laptops and smartphones will allow one to see and react to incoming faxes via the smartphone when he/she is on the go, and at the same time reply to important emails. Being able to respond to customers as soon as possible enhances one's customer service and, by responding to vendors or employees in hours and not days, boosts productivity.

ICT Industry Pushes for Better Energy Efficiency

Energy efficiency is becoming a more important purchasing criterion for consumers when shopping for computers, monitors, printers or other high-tech products. More and more corporations and individuals are willing to pay more for climate-friendly internet or telecommunications services as awareness of preserving the environment increases. PCs contribute 40% of the total IT GHG emissions attributed through power consumption worldwide, while servers in data centers are estimated to contribute 23% of total IT power consumption-related GHG emissions. The extent of the problem is much greater than merely inefficient energy usage and power consumption.

HP is integrating environmentally responsible components and processes across its entire product range. A year ago, despite leading the industry in the number of Electronic Product Environmental Assessment Tool (EPEAT) Gold listed products with the introduction of more than two dozen PCs registered in North America at either the Gold or Silver rating levels, HP announced at the 2008 Consumer Electronics Show its commitment to reduce the energy consumption and GHG emissions of its desktop

Market Trends & Outlook - United States

and notebook PC families to 25% below its 2005 levels by 2010. The target was achieved in September 2009.

(The EPEAT system helps shoppers evaluate, compare and select desktop computers, notebooks and monitors based on the products' environmental attributes. EPEAT evaluates electronic products according to three tiers of environmental performance: Bronze, Silver and Gold.)

HP's new goal is to reduce the energy consumption and associated GHG emissions of all its products to 40% below its 2005 levels by the end of 2011. Additionally, HP aims to reduce GHG emissions from HP-owned and HP-leased facilities to 20% below 2005 levels by 2013 on an absolute basis. This goal is independent of organic business growth and will be accomplished by reducing the worldwide energy footprint of HP facilities and data centers. In addition, HP plans to invest more in energy efficiency and renewable energy sources, with GHG emissions from its combined product innovations and operational efficiencies being reduced by more than four million metric tons between 2005 and 2008.

Infrastructure and Applications Aim to Counter Energy Wastage

Technology is at the core of the next generation of smart grids, with big corporations like IBM, Cisco, Oracle as well as other major industry trend-setters and market leaders making significant investments in research, skills development and partnerships to make smart grids a reality. They also believe that the only way to make smarter energy grids, become greener and optimize energy usage without wastage is to add instrumentation and intelligence systems to monitor and manage energy usage.

IBM and Consert Inc, a company focusing on the design and implementation of intelligent energy distribution and management networks, in September completed the smart grid pilot project installations with nearly 100 commercial and residential participants partnering with the Fayetteville Public Works Commission (FPWC) in Fayetteville, North Carolina. The pilot helped local businesses and residents actively participate in the monitoring and control of their energy use, with savings of up to 40%.

Utilizing software by IBM and Consert, participants can set their daily use profiles, check their energy consumption from an internet connection, select a monthly target bill

amount, and authorize FPWC to cycle their appliances off for brief periods during peak energy consumption events. Data is transmitted over the 3G Verizon Wireless network. The project aimed to reduce "ghost" consumption on devices such as air conditioners and water heaters that draw energy when no one is home to use them. Consumers will be able to do these same activities from a smartphone or mobile phone early next year. The project comes at a time when growing opportunities around stimulus funding and energy security are generating widespread interest in smarter energy infrastructure.

Consert provided the technology for the project with smart meter and software applications based on IBM software including DB2, WebSphere and Tivoli. The system is designed to provide customers with a real-time, two-way interactive communication and control system that allows for up to 256 devices and components to easily work with each other. Real-time energy monitoring and modifications can help typical consumers save, on average, 15% or more of their normal energy use with no change in comfort or lifestyle. In addition, the FPWC can calculate carbon savings at the device level, rather than at the point of generation.

In addition to the FPWC pilot project, Consert also has two active pilot programs in North Carolina with Wake Electric Membership Corporation and Project FREEDM with North Carolina State University in Raleigh. IBM is boosting efforts with business partners such as Consert to give utilities and consumers an easy way to reduce energy consumption and save money by helping to build an upgraded electricity delivery system that uses digital technology to reduce costs and increase reliability while promoting energy independence.

Besides IBM and Consert, Cisco in October implemented further steps to enable the development of an end-to-end, highly secure Smart Grid communications infrastructure to help utility companies and their customers better manage and reduce energy consumption, improve smart grid security and reliability, and reduce overall energy costs. Cisco is working with partners such as Oracle (NASDAQ: ORCL) to create the Cisco Smart Grid Ecosystem to facilitate the adoption of IP-based communications standards for smart grids that will benefit the energy industry as well as business and residential customers. The members of the Ecosystem include technology vendors, power and utility integrators and service providers: Accenture (NYSE: ACN), Echelon

Market Trends & Outlook - United States

(NASDAQ: ELON), General Electric Company (NYSE: GE), Infosys (NASDAQ: INFY), Verizon (NYSE: VZ) and Wipro (NYSE: WIT).

Market Outlook

Access to global networks and ICT resources is a requirement for individual and community success in this information age. ICT now plays a vital role in almost every aspect in our daily routines — from making a simple phone call to multi-million dollar corporate decisions. The significance of ICT has never been this obvious, so even though the ICT market in the first and second quarters of 2009 indicated that the industry was heavily affected by the global financial crisis, with falling revenues and profits, the market is likely to improve for the better.

Over the past six months, computer and network equipment vendors have been especially hard hit, together with licensed software revenues and IT outsourcing being generally weak. However, the poor results in the first half of 2009 also mean that the ICT market may bottom out sooner, and therefore, has a higher chance of positive year-over-year growth occurring in the final quarter of 2009 and into 2010, especially during Thanksgiving, Christmas and the New Year holiday season.

Market Trends & Outlook

Canada



A Greater Emphasis on E-Health Systems

The transformation of healthcare in Canada is a huge undertaking. It will require expertise and significant investment before the Canadian healthcare system is equipped with the applications and technology infrastructure that better collects, processes, stores and delivers health information. Realizing its importance, both the Government and the private sector are putting in effort and money into developing electronic health information systems.

Then introduction of e-Health is creating a new era in Canadian healthcare. As the healthcare system transitions from paper-based records to electronic health records, it is essential also for patients to become an active part of this process. The services envisioned in Canada's first consumer e-health platform should give patients the tools to manage their own healthcare through electronic access to comprehensive, patient-centered health information.

TELUS Corporation (TSX: T), a national telecommunications company in Canada, on November 11, 2008, announced its plans to make capital investments of US\$100 million in developing TELUS Health Solutions for the healthcare segment over three years. TELUS Health Solutions is a new brand launched by TELUS and backed by Emergis, a Canadian e-business company, also owned by TELUS, which will be providing technology, expertise and resources to help transform the way information is used in the healthcare industry.

In line with its plans announced in November 2008, TELUS signed an agreement with Microsoft in May to host and operate the HealthVault platform to provide e-health services in Canada. The service, the first of its kind in Canada, will be called TELUS Health Space. Its objective is to provide Canadians with virtual space to manage and store their personal health information and have access to applications like personal health records, chronic disease management, pediatric care and wellness products.

Partnering with Microsoft was a good strategic move for TELUS in realizing its e-health service. Also, having such a high-profile partner will aim to help attract leading application providers to their platforms. TELUS Health Space will be available to governments, health regions,

hospitals, insurers and employers who would like to offer the service to their constituents. TELUS will operate Health Space's infrastructure and securely host all stored health data in Canada.

From Microsoft's perspective, this would be the first international deployment of Microsoft HealthVault. Having it launched in Canada will accelerate the move toward an online, patient-centric healthcare system, which will improve the health and wellness of Canadians. TELUS and Microsoft will collaborate to solicit developers, application providers and device manufacturers to join the service and provide consumers with tools that will help foster dynamic, trusted and personalized healthcare.

Cloud Computing Expands in Canada

While the hype around cloud computing in Canada may have been tempered somewhat by the worldwide recession, cloud computing is being gradually introduced into the ICT industry to enhance computer efficiency, make-easy maintenance, and increase accessibility of data and applications from anywhere.

The significance of cloud computing is highlighted by the fact that the Government of Canada spends approximately C\$5 billion (US\$4.87 billion) annually on the IT sector, while C\$12 billion (US\$11.68 billion) has been allocated to accelerate and expand investments in different IT infrastructure projects, with C\$3 billion (US\$2.92 billion) going into cloud computing-related projects in the country's Budget 2009. For instance, C\$225 million (US\$219 million) will be spent on developing and enhancing broadband coverage throughout the country, C\$1 billion (US\$973.33 million) has been allocated to support and promote sustainable energy projects through the Green Infrastructure Fund, and C\$500 million (US\$486.67 million) was set aside to encourage greater use of electronic health records via the Canada Health Infoway.

The private sector is also investing in cloud computing. Technology solutions provider HP announced in August, along with GS1 Canada, the development of a cloud-based recall service that traces and removes potentially harmful food products from the supply chain. The sum involved in

Market Trends & Outlook - Canada

this partnership was, however, not disclosed. According to HP, the GS1 Canada Product Recall service will run on the HP cloud computing platform for manufacturing. The service can be used by food and consumer product organizations to reduce errors, decrease the amount of time taken to respond to a recall, and lower the costs associated with managing the recall process.

(GS1 is a leading global not-for-profit organization dedicated to global standards and solutions that improve the efficiency and visibility of supply and demand chains. The GS1 system of standards is the most widely used supply chain standards system in the world. GS1 Canada is the Canadian member of the Global GS1 organization.)

Cloud computing technology requires specific software and hardware for it to function the way its users want it to. For large-scale businesses, cloud computing technology eliminates the need to buy additional hardware for all employees, as all data needed would be easily accessible through individual computers. Installing software in every computer would no longer be necessary because cloud computing platform would be able to do the job. The cloud computing platform contains all the necessary functions and software for easy access and computing.

While cloud computing has generated tremendous attention and excitement, customers are still concerned about datacenter facility outages, exporting data from the cloud, data security and privacy, lack of common application programming interfaces (APIs), and data ownership. These concerns are compounded when working with a relatively small unknown vendor. For cloud computing technology to be beneficial to all its users, it is essential that the cloud computing platform does not neglect the need for a secure and private means of transacting business over the internet, and at the same time provides ease of use for the client. Emerging companies can benefit from partnering with larger incumbents looking to broaden their on-premise solutions to become part of an overall cloud computing strategy that can extend a start-up's reach and legitimacy.

Netbook Growth Set to Continue

Pioneered by Asustek Computer Inc's (TWN: 2357) Asus Eee PC, originally aimed at emerging markets, leading PC vendors are now raking in billions through worldwide sales as consumers from all over the world snapped netbooks up in surprisingly large numbers despite the economic woes.

Stripped-down and inexpensive laptops with a fraction of the capabilities of the more powerful laptops or desktop PCs, netbooks have grown the market for computers priced under US\$500 so much that the netbook segment now accounts for 26% of total PCs sales during the first quarter of 2009, according to Statistics Canada. Because of the portability of netbooks, a lot of business travelers have turned to them for their convenience. Desktop PC sales in Canada, on the other hand, dropped 21% in the first quarter of 2009, making the growth in netbooks all the more significant.

Netbooks now account for nearly two thirds of the growth in Canada's notebook sales. Canadians have purchased more than 126,000 netbooks worth some US\$49 million since July 2008. The average price for the devices is US\$390, a fraction of what top-of-the-line models from Apple and Dell might cost, but what netbooks lack in functions and features, they more than make up with low prices and higher sales volumes.

Market Outlook

Canada's ICT industry took a major hit in terms of annual budgets, employment and revenues, due to the fact that many companies overspent on ICT infrastructures and IT projects when times were good. The global recession, which started in 2008, served as a wake-up call, and changed how things work. Even though the worse seems to be over, with indications of an economic recovery next year, Canadian companies' IT departments have become leaner and more focused on their return on investment (ROI), and in most places, technology is even more integrated into business processes and operations than ever before. As a result, many new applications and technologies, such as cloud computing and e-health systems, are being introduced to bring down costs, but at the same time to maintain or enhance operating efficiencies, as well as to automate and streamline tasks.

Currency Conversion Table

Currency exchange rates as at October 14, 2009

Currency Unit	Units per US\$	US\$ per Unit
United States Dollar (US\$)	1	1
Canadian Dollar (C\$)	1.02740	0.97333

Source: Federal Reserve Bank of New York

The Scope Of This Report

This report looks at the IT and high-tech industries in the US and Canada, focusing on the IT services, computer equipment, software and semiconductor industries. The report aims to give a general picture of the current environment, industry profiles and market trends using available data and examining key public companies. Key financial results for leading companies in each country are presented in the comparative data tables.

Research analysts draw on a range of credible industry and company data sources as well as news and information services to research and analyze the current trading environment, industry landscape and market trends and outlook for a particular sector. Primary sources are used, unless otherwise indicated, which include company data, e.g. annual reports and company financial results; macroeconomic and trade data; data and information from global and country regulatory, industry and trade bodies; government data; and reports from industry organizations and private research organizations.

Industries covered by the industry reports are defined by standard industry classification systems and leading companies are identified on this basis. SIC codes relevant for the above industry segments are: 3571, 3572, 3575, 5045 (Computer Hardware & Equipment); 7371, 7373, 7374, 7375, 7376, 7377, 7378, 7379 (IT Services); 3674 (Semiconductors) and; 7372 (Software).

Key References

Global

World Semiconductor Trade Statistics (WSTS)

WSTS is an independent non-profit organization representing around 90% of the world's semiconductor industry. It also collects data and publishes forecasts on semiconductor trade.

<http://www.wsts.org>

World Information Technology Services Alliance (WITSA)

WITSA is a consortium of information industry, software and IT associations around the world. The alliance also carries research and forecasts on the IT industry globally.

United States

Information Technology Association of America (ITAA)

A trade association representing the broad spectrum of the US IT industry; the ITAA also provides information about the IT industry.

<http://www.itaa.org>

Semiconductor Equipment and Materials International (SEMI)

Founded in 1970, Semiconductor Equipment and Materials International (SEMI) is an international trade association representing more than 2,300 member companies that develop, manufacture and supply the technology, equipment, materials and services used to manufacture semiconductors, photovoltaic, and flat panel displays.

<http://www.semi.org/>

Semiconductor Industry Association (SIA)

The SIA represents the US semiconductor industry. It also conducts research and publishes statistics and forecasts.

<http://www.sia-online.org>

US Department of Commerce (DoC)

The department coordinates US government commerce policy. Encompassing a number of key government agencies, it also provides business products, services, information and resources.

<http://www.commerce.gov>

Canada

Canadian Advanced Technology Alliance (CATA)

CATA is an entrepreneurial technology alliance that focuses on growing members' business and global competitiveness through the pursuit of innovation and strategic partnerships. The alliance claims that 80% of their members are active exporters.

<http://www.cata.ca/>

Canadian Venture Capital and Private Equity Association (CVCA)

CVCA represents more than 1,000 private equity companies in Canada, with more than C\$50 billion (US\$47.06 billion) in capital under management.

<http://www.cvca.ca>

Industry Canada

A government department that promotes industry and a fair, efficient and competitive marketplace.
<http://www.ic.gc.ca>

Information and Communications Technology Council (ICTC)

ICTC is a non-profit council for IT professionals in Canada.
<http://www.ictc-ctic.ca>

Information Technology Association of Canada (ITAC)

A trade association representing the information and communications technology industry in Canada.
<http://www.itac.ca>

Statistics Canada

Canada's national statistical agency that deals with social and economic statistics and products.
<http://www.statcan.ca>

Company Name	Country	Ticker	Exchange	Primary SIC	Other SICs				
Hewlett-Packard Co	United States	HPQ	NYSE	3571	3572	7378	3577	3575	7372
International Business Machines	United States	IBM	NYSE	3571	3579	3577	7372		
Dell Inc	United States	DELL	NASDAQ	3571	3577				
Microsoft Corporation	United States	MSFT	NASDAQ	7372	3577				
Cisco Systems Inc	United States	CSCO	NASDAQ	3669	4899	7379	5065		
Intel Corp	United States	INTC	NASDAQ	3674	3669				
Ingram Micro Inc	United States	IM	NYSE	5045	4225				
Apple Inc	United States	AAPL	NASDAQ	3571	7372	3572	3575	3577	
Tech Data Corp	United States	TECD	NASDAQ	5045					
Electronic Data Systems Corp	United States	EDS	NYSE	7371	7374	7376	7377	6324	

Company Name	Total Revenue - FYE - 1	Total Revenue - FYE - 2	Total Revenue - FYE - 3	EBITDA - FYE - 1	EBITDA - FYE - 2	EBITDA - FYE - 3
Hewlett-Packard Co	\$118,364,000,000	\$104,286,000,000	\$91,658,000,000	\$13,829,000,000	\$11,882,000,000	\$9,544,000,000
International Business Machines	\$103,630,000,000	\$98,785,000,000	\$91,423,000,000	\$22,495,000,000	\$19,736,000,000	\$18,041,000,000
Dell Inc	\$61,101,000,000	\$61,133,000,000	\$57,420,000,000	\$4,186,000,000	\$4,479,000,000	\$3,861,000,000
Microsoft Corporation	\$60,420,000,000	\$51,122,000,000	\$44,282,000,000	\$25,870,000,000	\$21,541,000,000	\$19,165,000,000
Cisco Systems Inc	\$39,540,000,000	\$34,922,000,000	\$28,484,000,000	\$11,175,000,000	\$10,159,000,000	\$8,319,000,000
Intel Corp	\$37,586,000,000	\$38,334,000,000	\$35,382,000,000	\$11,814,000,000	\$13,171,000,000	\$10,778,000,000
Ingram Micro Inc	\$34,362,152,000	\$35,047,089,000	\$31,357,477,000	(\$267,523,000)	\$504,705,000	\$474,145,000
Apple Inc	\$32,479,000,000	\$24,006,000,000	\$19,315,000,000	\$6,715,000,000	\$4,678,000,000	\$2,649,000,000
Tech Data Corp	\$24,080,484,000	\$23,423,078,000	\$21,440,445,000	\$260,520,000	\$239,010,000	\$36,603,000
Electronic Data Systems Corp	\$22,134,000,000	\$21,268,000,000	\$19,757,000,000	\$1,314,000,000	\$995,000,000	\$680,000,000

Company Name	Net Income - FYE - 1	Net Income - FYE - 2	Net Income - FYE - 3	EPS - FYE - 1	EPS - FYE - 2	EPS - FYE - 3
Hewlett-Packard Co	\$8,329,000,000	\$7,264,000,000	\$6,198,000,000	\$3.35	\$2.76	\$2.23
International Business Machines	\$12,334,000,000	\$10,418,000,000	\$9,492,000,000	\$9.07	\$7.32	\$6.20
Dell Inc	\$2,478,000,000	\$2,947,000,000	\$2,583,000,000	\$1.25	\$1.33	\$1.15
Microsoft Corporation	\$17,681,000,000	\$14,065,000,000	\$12,599,000,000	\$1.90	\$1.44	\$1.21
Cisco Systems Inc	\$8,052,000,000	\$7,333,000,000	\$5,580,000,000	\$1.35	\$1.21	\$0.91
Intel Corp	\$5,292,000,000	\$6,976,000,000	\$5,044,000,000	\$0.93	\$1.20	\$0.87
Ingram Micro Inc	(\$394,921,000)	\$275,908,000	\$265,766,000	(\$2.37)	\$1.61	\$1.61
Apple Inc	\$4,834,000,000	\$3,496,000,000	\$1,989,000,000	\$5.48	\$4.04	\$2.36
Tech Data Corp	\$123,626,000	\$108,269,000	(\$96,981,000)	\$2.41	\$1.97	(\$1.76)
Electronic Data Systems Corp	\$716,000,000	\$470,000,000	\$150,000,000	\$1.40	\$0.91	\$0.29

Company Name	Total Current Assets - FYE - 1	Total Current Assets - FYE - 2	Total Current Assets - FYE - 3	Long-Term Debt - FYE - 1	Long-Term Debt - FYE - 2	Long-Term Debt - FYE - 3
Hewlett-Packard Co	\$51,728,000,000	\$47,402,000,000	\$48,264,000,000	\$7,676,000,000	\$4,997,000,000	\$2,490,000,000
International Business Machines	\$49,003,000,000	\$53,177,000,000	\$44,659,000,000	\$22,688,000,000	\$23,039,000,000	\$13,780,000,000
Dell Inc	\$20,151,000,000	\$19,880,000,000	\$19,939,000,000	\$1,898,000,000	\$362,000,000	\$569,000,000
Microsoft Corporation	\$43,242,000,000	\$40,168,000,000	\$49,010,000,000	N/A	N/A	N/A
Cisco Systems Inc	\$35,699,000,000	\$31,574,000,000	\$25,676,000,000	\$6,393,000,000	\$6,408,000,000	\$6,332,000,000
Intel Corp	\$19,871,000,000	\$23,885,000,000	\$18,280,000,000	\$1,886,000,000	\$1,980,000,000	\$1,848,000,000
Ingram Micro Inc	\$6,674,837,000	\$7,920,667,000	\$6,746,073,000	\$356,664,000	\$387,500,000	\$270,714,000
Apple Inc	\$34,690,000,000	\$21,956,000,000	\$14,509,000,000	N/A	N/A	N/A
Tech Data Corp	\$4,771,797,000	\$4,922,982,000	\$4,407,852,000	\$360,785,000	\$363,639,000	\$363,604,000
Electronic Data Systems Corp	\$8,445,000,000	\$8,257,000,000	\$8,502,000,000	\$3,209,000,000	\$2,965,000,000	\$2,939,000,000

Company Name	Return on Equity (Most Recent Yr)	Profit Margin (Most Recent Yr)	Date FYE - 1	Date FYE - 2	Date FYE - 3
Hewlett-Packard Co	21.39	7.04	31-Oct-2008	31-Oct-2007	31-Oct-2006
International Business Machines	91.60	11.90	31-Dec-2008	31-Dec-2007	31-Dec-2006
Dell Inc	58.02	4.06	30-Jan-2009	1-Feb-2008	2-Feb-2007
Microsoft Corporation	48.73	29.26	30-Jun-2008	30-Jun-2007	30-Jun-2006
Cisco Systems Inc	23.44	20.36	26-Jul-2008	28-Jul-2007	29-Jul-2006
Intel Corp	13.54	14.08	27-Dec-2008	29-Dec-2007	30-Dec-2006
Ingram Micro Inc	-14.87	-1.15	3-Jan-2009	29-Dec-2007	30-Dec-2006
Apple Inc	22.99	14.88	27-Sep-2008	29-Sep-2007	30-Sep-2006
Tech Data Corp	7.19	0.51	31-Jan-2009	31-Jan-2008	31-Jan-2007
Electronic Data Systems Corp	7.39	3.23	31-Dec-2007	31-Dec-2006	31-Dec-2005

Notes to Comparative Data

- All figures are in United States dollars.
- All figures are as reported by the company.

Definitions

- Total Revenue = All revenues, including net sales, operating revenues, interest income, royalties, excise taxes etc.
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- EPS Cont Operations = Earnings Per Share as reported by company excluding extraordinary items.
- Total Current Assets = All assets expected to be realized within the next year, includes cash, accounts receivable and inventories.

- N/A = Data Not Available.
- N/L = Not Listed.
- Companies ranked by total revenue for the full year most recently reported.

- Long Term Debt = Debt due to be paid at a date more than one year in the future.
- Return on Equity = The company's earnings divided by its equity (book value).
- Profit Margin = The company's net income as a percent of revenues.

Company Name	Country	Ticker	Exchange	Primary SIC	Other SICs				
Research in Motion Ltd	Canada	RIMM	NASDAQ	4813	4899	3669			
Celestica Inc	Canada	CLS	NYSE	3672	3679				
CGI Group Inc	Canada	GIB.A	TSX	8742	7379				
Softchoice Corp	Canada	SO	TSX	5045					
MacDonald Dettwiler & Associates	Canada	MDA	TSX	7375	8748				
Open Text Corp	Canada	OTEX	NASDAQ	7373	7371	7379			
Constellation Software Inc	Canada	CSU	TSX	7372					
GSI Group Inc	Canada	GSIG	NASDAQ	3674	3679	3678	3629		
Corel Corp	Canada	CRE	TSX	7372					
SMTC Corp	Canada	SMX	TSX	3672	3678	3679			

Company Name	Total Revenue - FYE - 1	Total Revenue - FYE - 2	Total Revenue - FYE - 3	EBITDA - FYE - 1	EBITDA - FYE - 2	EBITDA - FYE - 3
Research in Motion Ltd	\$11,065,186,000	\$6,009,395,000	\$3,037,103,000	\$3,128,259,000	\$1,987,886,000	\$985,300,000
Celestica Inc	\$7,678,200,000	\$8,070,400,000	\$8,811,700,000	(\$563,800,000)	\$189,100,000	\$60,700,000
CGI Group Inc	\$3,540,566,926	\$3,653,123,900	\$3,043,652,163	\$591,461,819	\$593,370,194	\$406,918,200
Softchoice Corp	\$1,244,295,000	\$777,082,000	\$703,237,000	(\$7,731,000)	\$43,459,000	\$30,546,000
MacDonald Dettwiler & Associates	\$952,085,103	\$1,227,687,017	\$903,981,792	\$112,114,690	\$185,864,898	\$146,609,980
Open Text Corp	\$725,532,000	\$595,664,000	\$409,562,000	\$184,867,000	\$128,111,000	\$47,365,000
Constellation Software Inc	\$330,532,000	\$243,023,000	\$210,759,000	\$64,382,000	\$40,041,000	\$19,661,000
GSI Group Inc	\$317,800,000	\$313,609,000	\$260,784,000	\$39,419,000	\$41,847,000	\$25,929,000
Corel Corp	\$268,230,000	\$250,480,000	\$177,191,000	\$48,996,000	\$37,305,000	\$42,405,000
SMTC Corp	\$242,634,000	\$256,408,000	\$262,782,000	\$443,000	\$11,909,000	\$17,709,000

Company Name	Net Income - FYE - 1	Net Income - FYE - 2	Net Income - FYE - 3	EPS - FYE - 1	EPS - FYE - 2	EPS - FYE - 3
Research in Motion Ltd	\$1,892,616,000	\$1,293,867,000	\$631,572,000	\$3.35	\$2.31	\$1.14
Celestica Inc	(\$720,500,000)	(\$13,700,000)	(\$150,600,000)	(\$3.14)	(\$0.06)	(\$0.66)
CGI Group Inc	\$279,705,573	\$237,649,661	\$131,430,968	\$0.88	\$0.72	\$0.36
Softchoice Corp	(\$14,388,000)	\$21,997,000	\$15,930,000	(\$0.82)	\$1.27	\$0.93
MacDonald Dettwiler & Associates	\$39,509,595	\$96,816,125	\$71,799,364	\$0.98	\$2.34	\$1.75
Open Text Corp	\$53,006,000	\$21,660,000	\$4,978,000	\$1.04	\$0.44	\$0.10
Constellation Software Inc	\$14,994,000	\$11,110,000	(\$1,236,000)	\$0.71	\$0.53	(\$0.06)
GSI Group Inc	\$19,044,000	\$21,743,000	\$9,657,000	\$0.45	\$0.52	\$0.23
Corel Corp	\$3,707,000	(\$13,062,000)	\$9,251,000	\$0.14	(\$0.52)	\$0.41
SMTC Corp	(\$5,895,000)	\$2,672,000	\$10,461,000	(\$0.40)	\$0.18	\$0.71

Company Name	Total Current Assets - FYE - 1	Total Current Assets - FYE - 2	Total Current Assets - FYE - 3	Long-Term Debt - FYE - 1	Long-Term Debt - FYE - 2	Long-Term Debt - FYE - 3
Research in Motion Ltd	\$4,841,586,000	\$3,477,354,000	\$1,919,265,000	N/A	\$7,259,000	\$6,342,000
Celestica Inc	\$3,171,800,000	\$2,999,600,000	\$3,120,800,000	\$732,100,000	\$758,300,000	\$750,200,000
CGI Group Inc	\$849,172,264	\$892,562,956	N/A	\$277,231,098	\$465,821,563	\$0
Softchoice Corp	\$268,636,000	\$232,196,000	\$165,921,000	\$13,717,000	\$21,897,000	\$0
MacDonald Dettwiler & Associates	\$236,934,538	\$274,024,692	\$221,326,119	\$393,381,617	\$424,522,094	\$318,128,489
Open Text Corp	\$430,074,000	\$350,436,000	\$229,890,000	\$304,301,000	\$366,765,000	\$12,963,000
Constellation Software Inc	\$132,841,000	\$90,463,000	\$83,203,000	N/A	N/A	N/A
GSI Group Inc	\$338,647,000	\$290,803,000	\$248,370,000	N/A	N/A	N/A
Corel Corp	\$94,533,000	\$71,517,000	\$73,919,000	\$138,226,000	\$158,473,000	\$89,223,000
SMTC Corp	\$69,297,000	\$70,659,000	\$89,291,000	\$17,530,000	\$19,157,000	\$20,163,000

Company Name	Return on Equity (Most Recent Yr)	Profit Margin (Most Recent Yr)	Date FYE - 1	Date FYE - 2	Date FYE - 3
Research in Motion Ltd	32.22	17.10	28-Feb-2009	1-Mar-2008	3-Mar-2007
Celestica Inc	-52.76	-9.38	31-Dec-2008	31-Dec-2007	31-Dec-2006
CGI Group Inc	14.64	7.90	30-Sep-2008	30-Sep-2007	30-Sep-2006
Softchoice Corp	-21.34	-1.16	31-Dec-2008	31-Dec-2007	31-Dec-2006
MacDonald Dettwiler & Associates	9.15	4.15	31-Dec-2008	31-Dec-2007	31-Dec-2006
Open Text Corp	8.33	7.31	30-Jun-2008	30-Jun-2007	30-Jun-2006
Constellation Software Inc	15.72	4.54	31-Dec-2008	31-Dec-2007	31-Dec-2006
GSI Group Inc	5.09	5.99	31-Dec-2007	31-Dec-2006	31-Dec-2005
Corel Corp	-44.33	1.38	30-Nov-2008	30-Nov-2007	30-Nov-2006
SMTC Corp	-27.66	-2.43	4-Jan-2009	31-Dec-2007	31-Dec-2006

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- Return on Equity = The company's earnings divided by its equity (book value).
- Profit Margin = The company's net income as a percent of revenues.



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